

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Friday, October 26, 1945, at 11:00 a.m.

PRESENT: Mr. Ransom, Vice Chairman
Mr. Szymczak
Mr. Draper

Mr. Carpenter, Secretary
Mr. Connell, General Assistant,
Office of the Secretary

The action stated with respect to each of the matters herein-after referred to was taken by the Board:

Telegrams to Mr. Flanders, President of the Federal Reserve Bank of Boston, Mr. Treiber, Assistant Vice President of the Federal Reserve Bank of New York, Mr. Keesee, Secretary of the Federal Reserve Bank of Richmond, Mr. McLarin, President of the Federal Reserve Bank of Atlanta, Mr. Dillard, Vice President of the Federal Reserve Bank of Chicago, Mr. Stewart, Secretary of the Federal Reserve Bank of St. Louis, Mr. Powell, First Vice President of the Federal Reserve Bank of Minneapolis, Mr. Johns, Secretary of the Federal Reserve Bank of Kansas City, Mr. Gilbert, President of the Federal Reserve Bank of Dallas, Mr. Earhart, Vice President of the Federal Reserve Bank of San Francisco, stating that the Board approves the establishment without change by the Federal Reserve Bank of Chicago on October 22, by the Federal Reserve Banks of St. Louis and San Francisco on October 23, by the Federal Reserve Bank of Atlanta on October 24, by the Federal Reserve Banks of New York, Richmond, Minneapolis, Kansas City,

10/26/45

-2-

and Dallas on October 25, 1945, and by the Federal Reserve Bank of Boston today of the rates of discount and purchase in their existing schedules.

Approved unanimously.

Memorandum dated October 25, 1945, from Mr. Bethea, Director of the Division of Administrative Services, recommending that the Board approve the appointment of Mrs. Gloria Jenkins as a cafeteria helper in that Division on a temporary basis for a period of not to exceed two months, with salary at the rate of \$1,440 per annum, effective October 25, 1945. The memorandum stated that it was not contemplated that Mrs. Jenkins would become a member of the Board's retirement system.

Approved unanimously.

Letter to Mr. Sproul, President of the Federal Reserve Bank of New York, reading as follows:

"Mr. Szymczak has referred to the Board your letter of October 23 regarding the probability that the State Department will request the services of Mr. Frank Tamagna of your staff in Tokyo. The Board has no doubt that Mr. Tamagna's services will be useful to the American authorities there and sees no objection to his being granted a leave of absence without pay by your Bank for a period of approximately six months, assuming, as you say, that the anticipated request is made by the State Department."

Approved unanimously.

Telegram to Mr. Leland, Chairman of the Federal Reserve Bank of Chicago, reading as follows:

10/26/45

-3-

"Retel October 25. Board approves appointment by your Board of Directors of Charles B. Dunn as First Vice President of the Federal Reserve Bank of Chicago, effective October 25, 1945, for the unexpired portion of the term ending February 28, 1946.

"Board also approves salary fixed by your directors for Mr. Dunn in the new position at the rate of \$20,000 per annum for the period ending February 28, 1946.

"It is understood that announcement of appointment will be made by your Bank, no announcement, other than in the Bulletin, being made here."

Approved unanimously.

Letter to Mr. Wiltse, Vice President of the Federal Reserve Bank of New York, reading as follows:

"In accordance with the recommendation contained in Mr. Sheehan's letter of October 18, 1945, the Board of Governors approves the establishment and operation of a branch in Depew, New York, by The Marine Trust Company of Buffalo, Buffalo, New York. It is noted that formal approval of the appropriate State authorities has been obtained and it is understood that Counsel for the Reserve Bank has reviewed and is satisfied as to the legality of all steps taken to establish the branch which are complete with the foregoing approval of the Board."

Approved unanimously.

Letter to the Banco de Mexico, S. A., Mexico, D. F., reading as follows:

"This will acknowledge with thanks your letter of October 16 informing us that, in accordance with the arrangement agreed upon, your Bank has sold 13,200 shares of the Pan American Trust Company to Nacional Financiera, S. A., and the Banco Nacional de Comercio Exterior and that 4,440 additional shares have been sold to other purchasers. It is understood from Mr. Sproul's report of his conversation with Mr. Villasenor that you are negotiating some larger transactions which should bring about a more rapid rate of divestment during the next four

10/26/45

-4-

"months and accomplish the program as contemplated by March 1, 1946. We shall look forward with interest to the communication which you say you will send us in December regarding further progress in the transfer of the Pan American Trust Company stock."

Approved unanimously.

Letter to Mr. N. C. Lenfesty, Vice President and Cashier of The National City Bank of New York, New York, New York, reading as follows:

"This will acknowledge with thanks your letter of October 18, 1945, advising that the Hongkong Branch of your bank was reopened for business on October 15, 1945.

"As indicated in Mr. Shaw's letter of September 18, 1945, it is understood that, when the officer in charge of the Branch makes his report to your office as contemplated by Regulation M, a copy of that report will be transmitted to the Federal Reserve Bank of New York."

Approved unanimously.

Letter to Mr. Fletcher, Vice President of the Federal Reserve Bank of Cleveland, reading as follows:

"In accordance with the recommendation contained in your letter of October 15, 1945, the Board approves the establishment and operation of a branch in Rocky River, Ohio, by The Cleveland Trust Company, Cleveland, Ohio, with the understanding that counsel for the Reserve Bank will review and satisfy himself as to the legality of all steps taken to establish the branch."

Approved unanimously.

Letter to Mr. Fletcher, Vice President of the Federal Reserve Bank of Cleveland, reading as follows:

"This refers to the application of 'The Mount Union Bank,' Alliance, Ohio, for permission to exercise fiduciary powers.

10/26/45

-5-

"In view of the information submitted by you, and in accordance with your recommendation, the Board of Governors of the Federal Reserve System grants the applicant bank permission under the provisions of its condition of membership numbered 1, to exercise the fiduciary powers authorized under its articles of incorporation and the laws of the State of Ohio. The Board's approval is given subject to acceptance by the bank of the following standard conditions prescribed in connection with the admission to membership of State banks exercising fiduciary powers:

1. Such bank shall not invest funds held by it as fiduciary in stock or obligations of, or property acquired from, the bank or its directors, officers, or employees, or their interests, or in stock or obligations of, or property acquired from, affiliates of the bank.
2. Such banks, except as permitted in the case of national banks exercising fiduciary powers, shall not invest collectively funds held by the bank as fiduciary and shall keep the securities and investments of each trust separate from those of all other trusts and separate also from the properties of the bank itself.
3. If funds held by such bank as fiduciary are deposited in its commercial or savings department or otherwise used in the conduct of its business, it shall deposit with its trust department security in the same manner and to the same extent as is required of national banks exercising fiduciary powers.

"Since it is understood that in the State of Ohio trust funds deposited in the banking department of a bank are preferred claims in event of liquidation of the bank, you are authorized, in accordance with the general authorization previously granted by the Board, to waive compliance with condition of membership numbered 3 herein until further notice.

"You are requested to advise The Mount Union Bank, Alliance, Ohio, of the Board's action and to obtain an

10/26/45

-6-

"appropriate resolution of the board of directors of the bank accepting the conditions listed above and forward a certified copy thereof to the Board."

Approved unanimously.

Letter to the "Mercantile Bank," Hammond, Indiana, reading as follows:

"The Board of Governors of the Federal Reserve System has considered the application for permission to exercise fiduciary powers made by you on behalf of the Mercantile National Bank of Hammond, Hammond, Indiana, the national bank into which the Mercantile Bank, Hammond, Indiana, is to be converted, and grants such national bank authority, effective if and when it is authorized by the Comptroller of the Currency to commence business, to act, when not in contravention of State or local law, as trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which State banks, trust companies or other corporations which come into competition with national banks are permitted to act under the laws of the State of Indiana, the exercise of all such rights to be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

"After the conversion of the Mercantile Bank, Hammond, Indiana into the Mercantile National Bank of Hammond becomes effective and the Comptroller of the Currency authorizes the national bank to commence business, you are requested to have the board of directors of the national bank adopt a resolution ratifying your application for permission to exercise fiduciary powers, and a certified copy of the resolution so adopted should be forwarded to the Federal Reserve Bank of Chicago for transmittal to the Board for its records. When a copy of such resolution has been received by the Board, a formal certificate covering the national bank's authority to exercise trust powers will be forwarded."

Approved unanimously.

10/26/45

-7-

Telegram to Mr. Sawyer, Manager of the Security and Loan Department of the Federal Reserve Bank of Boston, reading as follows:

"Re your letter October 22. All information we have on Rock Island bonds indicates cash distribution is a part of settlement for both principal and interest due on bonds under reorganization plan, that holders also receive bonds and stock, and that amounts payable on account of interest are not segregated or identified. Accordingly, we do not believe that cash could be paid to customer as interest received on the old bonds within the meaning of section 6(g)."

Approved unanimously, together with a similar telegram to Mr. Mangels, Vice President of the Federal Reserve Bank of San Francisco.

Letter to the Presidents of all the Federal Reserve Banks reading as follows:

"Inquiries have been received as to the effect of Regulation U in two situations: (1) an unsecured loan for the purpose of purchasing registered stock is outstanding and the customer wishes to obtain an additional loan for the same purpose which is to be secured by stocks; (2) a loan for the purpose of purchasing registered stocks and secured by stocks is outstanding and the customer wishes to obtain an additional loan for the same purpose which is not to be secured by stocks. None of the loans are exceptions as described in section 2.

"In the first case, the bank must obtain, at the time the additional loan is made, collateral having loan value at least equal to the amount of the additional loan. No collateral is required to be provided at that time for the unsecured loan, but thereafter withdrawals and substitutions of collateral will be governed by the status of the entire indebtedness, both secured and unsecured, as related to the collateral for the secured loan.

"In the second case, the bank may not make the unsecured loan, but, unless excess collateral is held for the outstanding loan, must obtain, at the time the additional loan is made, collateral having loan value at least equal

10/26/45

-8-

"to the amount of the additional loan. Thereafter, withdrawals and substitutions of collateral will be governed by the status of the entire indebtedness, including both the new and the old loan, as related to the collateral for both loans.

"These results follow from the language of the second paragraph of section 1 which provides that the entire indebtedness for the purpose of purchasing or carrying registered stocks shall be considered a single loan and all collateral securing such indebtedness shall be considered together in determining compliance with the regulation. It is accordingly of no consequence that a portion of the indebtedness is technically unsecured if there is a portion which is secured by stocks. Furthermore, the results do not depend upon the existence of a 'general pledge agreement' by which all collateral and property of the borrower in the possession of the bank is subject to the lien of every loan to the borrower. Consequently, the rules are applicable even where there is no such agreement.

"It will be noted that in these cases both of the loans are for the purpose of purchasing or carrying registered stocks and neither is excepted by section 2. If the situation involves a loan for another purpose or a loan excepted by section 2, the existence of a general pledge agreement may become relevant as may also the question of whether or not there has been an identification of collateral pursuant to section 3(n)."

Approved unanimously.

Letter to the Presidents of all the Federal Reserve Banks reading as follows:

"There is enclosed a copy of a memorandum from the War Department, dated October 23, 1945, signed by Colonel John C. Mechem, Chief, Special Financial Services Division, Finance Department, regarding the policy of the Services relative to requiring the elimination of Section 6 of the 1942 and 1943 forms of guarantee agreement as a condition of waivers, modifications and consents under the loan agreements.

"Since the adoption of the 1944 V loan guarantee

10/26/45

-9-

"agreement certain changes in credit agreements, in addition to extensions of maturities referred to in Explanatory Note 5, have been of such a character that the Services have conditioned their approval on the elimination of Section 6 from the 1942 and 1943 forms of the guarantee agreement.

"For the guidance of the Federal Reserve Banks, the policy of the Services in this respect is set forth in the attached memorandum, which, as you will note, is concurred in by the Navy Department."

Approved unanimously.

Memorandum dated October 22, 1945, from Mr. Smead, Director of the Division of Bank Operations, recommending that the Board approve the draft of Form F.R. 105 and of related revised instructions attached to the memorandum for use in obtaining reports of condition of State member banks on the forthcoming end-of-year call. It was understood that the Comptroller of the Currency and the Federal Deposit Insurance Corporation expected to make similar changes in their form of call report.

Approved unanimously, together with a draft of letter of instructions to the Presidents of all the Federal Reserve Banks in connection with the revised call report form.

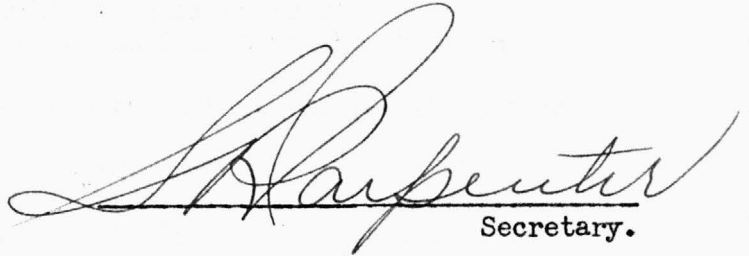
Memorandum dated October 22, 1945, from Mr. Carpenter recommending that the Board authorize the payment of the cost of a stenographic report of the Conference of Chairmen which is to be held on October 29 and 30, 1945, as well as the expense of the dinner at the Statler Hotel which is being arranged for the night of October 29 and any other minor expenses that may be incurred in connection with the

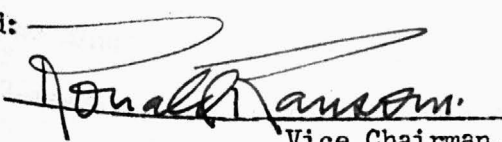
10/26/45

Conference. The memorandum also recommended that the necessary amounts be added to the appropriate items of the budget to cover these expenses.

Approved unanimously.

Thereupon the meeting adjourned.


Secretary.

Approved: 
Vice Chairman.